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Mr. James R. Doty, Chairman
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Sent by email to comments@pcaobus.org

Re: PCAOB Release No. 2016-003, Rulemaking Docket Matter No. 034: Proposed Auditing Standard – *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* and Related Amendments to PCAOB Standards.

Dear Mr. Doty,

ConocoPhillips appreciates the opportunity to comment on the Public Company Accounting Oversight Board (PCAOB) Release No. 2016-003 (2016 Release), which includes the Proposed Auditing Standard – *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* and Related Amendments to PCAOB Standards (the 2016 Re-Proposed Standard), a standard originally proposed by the PCAOB in August 2013 (2013 Proposed Standard). ConocoPhillips is the world’s largest independent exploration and production company, based on proved reserves and production of liquids and natural gas. Headquartered in Houston, Texas, we had operations and activities in 21 countries, approximately 15,600 employees worldwide and total assets of \$100 billion as of March 31, 2016.

We acknowledge the PCAOB’s objective to improve the relevance and usefulness of the auditor’s report without imposing requirements beyond the auditor’s expertise or mandate. We agree with the 2016 Re-Proposed Standard’s provisions to retain the pass/fail model of the existing auditor’s report. Further, we are supportive of certain proposed enhancements to the auditor’s report that may help achieve the PCAOB’s objective, including 1) a statement regarding auditor independence, 2) expressly permitting additional report addressees, 3) enhancements to basic elements of the report, such as adding the phrase “whether due to error or fraud,” and 4) standardizing the form of the report.

However, we are concerned by the provisions in the 2016 Re-Proposed Standard regarding 1) critical audit matters (CAMs) as determined by the auditor and 2) disclosure of audit firm tenure in the auditor’s report. We expressed similar concerns in our letter dated December 10, 2013 regarding the 2013 Proposed Standard (2013 Comment Letter).

We continue to believe the CAM provision would improperly shift the responsibilities of management and the audit committee to the auditor, inappropriately expanding the auditor’s role and straining the relationship between the auditor, management and the audit committee. Further, the additional disclosures required by the CAM provision would likely result in an onerous, lengthy auditor’s report that duplicates or conflicts with existing management disclosure and confuses financial statement users, already overwhelmed by disclosure. At best, investors will have to dig through a lengthy auditor’s report to distinguish the useful information, which may be hiding in plain sight. At worst, investors may conclude

there is a problem with the audit in spite of an unqualified opinion. Accordingly, this provision does not increase the usefulness of the auditor's report, and it imposes requirements beyond the auditor's mandate. Consequently, it does not achieve the PCAOB's stated objective.

While we believe CAMs are characteristically inappropriate, if the PCAOB includes a CAM provision, CAMs should be selected from the critical accounting estimates as disclosed in comprehensive detail by management, rather than from matters the auditor communicates or is required to communicate to the audit committee. This approach is consistent with the intrinsic similarities between CAMs and critical accounting estimates. It also more effectively accomplishes the PCAOB's stated objective since it eliminates both the potential for the auditor to become an initial source of disclosure about a company and the potential for duplicative, overlapping or conflicting disclosure between the auditor and management.

Regarding auditor tenure, the PCAOB concedes in the 2016 Release it is possible that investors may draw incorrect inferences between auditor tenure and audit quality that could have an adverse impact on cost of capital and could lead to inefficient conversations that are a poor use of investor, management and audit committee time. We agree with this, and accordingly, we believe required disclosure is not necessary. However, if the final conclusion is it should be disclosed, this additional information should be provided by management or the audit committee in the proxy statement rather than by the auditor in the audit opinion.

The following discussion presents our views regarding the significant elements of the 2016 Proposed Standard in greater detail.

Critical Audit Matters

The 2016 Re-Proposed Standard includes a revised CAM definition which narrows the scope of potential CAMs to those matters involving especially challenging, subjective or complex auditor judgment that are both communicated or required to be communicated to the audit committee and related to material accounts or disclosures. While this is a slight improvement from the 2013 Proposed Standard, CAMs as determined by the auditor are conceptually inconsistent with the existing regulatory framework in the U.S., which clearly articulates the financial statements and related disclosures are the responsibility of management. Consistent with this framework, management should be the source of disclosure regarding all matters of challenging, subjective or complex judgment. The auditor's responsibility currently is, and should continue to be, limited to expression of a pass/fail opinion.

Previous Concerns Not Adequately Addressed by the PCAOB

Our 2013 Comment Letter presented three significant concerns regarding CAMs:

1. Communication of CAMs by the auditor would undermine the role of management as the primary source of disclosure.
2. Communication of CAMs would result in disclosure of duplicative, conflicting and confidential or competitively sensitive information.
3. Consequently, the CAM provision would lead to investor confusion and would strain the relationship between the auditor, management and the audit committee.

These concerns were similar to those raised by several preparers and other interested parties. While we appreciate the PCAOB's attempt to address these concerns in its additional considerations related to the CAM communication requirement, we do not believe they have been adequately mitigated.

Regarding our first above concern, the PCAOB states on page 35 of the 2016 Release, “Since the auditor would be communicating information regarding the audit rather than information directly about the company and its financial statements, the communication of critical audit matters should not diminish the governance role of the audit committee and management’s responsibility for the company’s disclosure of financial information.”

The PCAOB’s conclusion appears to be predicated upon an assumption that information regarding the audit is separate from information about the company and its financial statements to which the audit directly relates. Management is responsible for disclosure of the company’s financial information, as well as the challenging, subjective or complex judgments incorporated into the assumptions and estimates upon which the financial information is based. An auditor makes especially challenging, subjective or complex judgments only as necessary to opine on the same judgments already made by management. In this context, we disagree with the PCAOB’s unfounded presumption that the communication of information regarding an audit is separate from the communication of information about the company and its financial statements.

Regarding our second above concern, the 2016 Re-Proposed Standard revises the definition of a CAM to include a materiality component, and adds an explanatory note to address concerns about the auditor potentially becoming the source of original information. The explanatory note stipulates the auditor is not expected to provide information about the company that has not been made publicly available, unless such information is necessary to describe the principal considerations that led the auditor to determine a matter is a critical audit matter or how the matter was addressed in the audit. However, the scope of potential CAMs as currently defined – selected from a population of all matters communicated or required to be communicated to the audit committee – inherently permits the auditor to provide information about a company that has not been made publicly available, thereby expanding the auditor’s authority beyond its mandate. Additionally, we expect auditors, conscious of potential liability, will err on the side of onerous disclosure resulting in duplicative, conflicting, and confusing information that does not add value.

Our third above concern follows logically from the first two. The amplified capability assumed by the auditor oversteps into the existing disclosure responsibilities of management and oversight responsibilities of the audit committee, which we expect will result in unproductive confrontation that ineffectively strains the relationships among these parties. Further, the additional drawn-out information included in the auditor’s report may lead investors to conclude there was a problem with the audit in spite of an unqualified audit opinion, particularly if the auditor goes to great lengths to explain the audit approach to CAMs. Increasing the length of the auditor’s report with overlapping and conflicting information will not achieve the PCAOB’s stated objective to improve the usefulness of the auditor’s report, and it also runs counter to the objective of the SEC’s current disclosure effectiveness initiative to lessen disclosure overload and improve disclosure for the benefit of both companies and investors.

Proposed Alternative – Select CAMs from Management’s Critical Accounting Estimates

We strongly oppose the 2016 Re-Proposed Standard’s CAM provision. If the PCAOB retains a CAM provision, the scope should be further narrowed so CAMs are selected from the critical accounting estimates management discloses, rather than from matters the auditor communicates or is required to communicate to the audit committee. The PCAOB’s CAM definition aligns closely with the SEC’s existing critical accounting estimates definition, which requires management to disclose estimates or assumptions when 1) the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and 2) the impact of the estimates and assumptions on financial condition or operating performance is material. Under our approach, the auditor would not be required to identify every critical

accounting estimate as a CAM, but only those involving especially challenging, subjective or complex auditor judgment.

With respect to auditor communication of CAMs in our proposed approach, the auditor could state “there are none except those disclosed by management,” referring to management’s critical accounting estimates rather than providing a long list of duplicative information. The auditor could then describe how each CAM was addressed in the audit. Certain judgmental matters for which classification as critical accounting estimates is unclear or borderline will require additional deliberation. Under our proposed approach, the auditor would still have the opportunity for robust dialogue and healthy debate with management and the audit committee regarding the final classification of these matters, as well as the determination of other critical accounting estimates from which critical audit matters would be selected.

Our proposed approach is more consistent with the existing U.S. regulatory framework, respecting management’s role as the primary source of disclosure. It would also limit disclosure of duplicative, conflicting and confidential or competitively sensitive information, thus alleviating the potential for misunderstanding among investors and other financial statement users.

Auditor Tenure

The PCAOB explored required disclosure of audit firm tenure in the auditor’s report in its 2013 Proposed Standard, and the SEC explored similar required disclosure in the proxy statement in its 2015 Concept Release – *Possible Revisions to Audit Committee Disclosures*. We have already presented our views regarding auditor tenure in our 2013 Comment Letter to the PCAOB, as well as in our comment letter dated September 8, 2015 regarding the SEC’s 2015 Concept Release.

We reiterate our views here, namely that we are aware of only a limited number of empirical studies regarding the correlation between audit firm tenure and audit quality, and the evidence regarding a positive or negative correlation is inconclusive. We note the PCAOB also continues to admit both commenters and academic research are divided on the relationship of auditor tenure and audit quality. The PCAOB acknowledges on page 91 of the 2016 Release, “it is possible that some investors may draw incorrect inferences about auditor tenure that could have an unwarranted effect on cost of capital and could also result in conversations that are an inefficient use of management and audit committee time.” Accordingly, we do not believe required disclosure of audit firm tenure is necessary, and it may be misleading if not put in the proper context.

If the final conclusion is audit firm tenure should be disclosed, we believe this additional information should be provided by management or the audit committee in the proxy statement section discussing engagement of the audit firm, rather than by the auditor in the audit opinion. This approach would allow management or the audit committee to provide context so readers do not draw an inappropriate conclusion regarding a link between audit quality and audit firm tenure. Limiting this disclosure to a basic element in the auditor’s report stating the year the auditor began consecutively serving the company, as the PCAOB has proposed, would lack this necessary perspective.

In the 2016 Release, the PCAOB notes a growing trend toward voluntary disclosure of auditor tenure to support its view that required disclosure is necessary. From our perspective, this voluntary disclosure appears to be occurring in response to the views of each registrant’s investor group, which adds further evidence that a regulatory requirement is in fact not necessary. If investors find this information to be useful, they can and do communicate their concerns to senior management and the board of directors. We do not see a need for the PCAOB to propose rule-making for a problem for which various alternative remedies already exist.

International Regulations

Throughout the 2016 Release, the PCAOB highlights changes to the form and content of auditor's reports from other global standard setting agencies including the International Auditing and Assurance Standards Board (IAASB), the European Union (EU), and the Financial Reporting Council in the United Kingdom (FRC). On page 8 of the 2016 Release, the PCAOB claims that it considers the efforts taken in these other jurisdictions and their relevance to its own standard setting project, while at the same time recognizing the regulatory environments in other jurisdictions are different from the U.S.

We are disappointed in the lack of robust dialogue regarding specifically how the PCAOB considered the relevance of the standard setting efforts in other jurisdictions and how it incorporated the differences in the U.S. regulatory environment when drafting the 2016 Re-Proposed Standard. The result is a series of discussions throughout the 2016 Release of the ways in which the 2016 Re-Proposed Standard is analogous to standards from the IAASB, EU, and FRC, as if these similarities justify the provisions set forth in the 2016 Re-Proposed Standard. No conclusions can yet be drawn regarding whether the other jurisdictional changes have achieved the desired objectives, and at what cost or consequence.

Summary and Conclusion

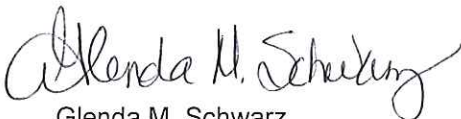
We recognize the PCAOB's objective to improve the relevance and usefulness of the auditor's report without imposing requirements beyond the auditor's expertise or mandate. We believe the provisions regarding CAMs and auditor tenure do not achieve this objective.

While we decisively oppose CAMs, if the PCAOB retains a CAM provision, we believe CAMs should be selected from critical accounting estimates disclosed by management, rather than from matters the auditor communicates or is required to communicate to the audit committee. Further, while we believe required disclosure of auditor tenure is not necessary, if the final conclusion is it should be disclosed, this additional information should be provided by management or the audit committee in the proxy statement rather than by the auditor in the audit opinion.

We agree with the 2016 Re-Proposed Standard's provisions to retain the pass/fail model of the existing auditor's report. Further, we are supportive of certain proposed enhancements to the auditor's report that may help achieve the PCAOB's objective, including 1) a statement regarding auditor independence, 2) expressly permitting additional addressees, 3) enhancements to basic elements of the report, such as adding the phrase "whether due to error or fraud," and 4) standardizing the form of the report.

Thank you for the opportunity to offer our comments on the 2016 Re-Proposed Standard. We hope you find our comments helpful.

Sincerely,



Glenda M. Schwarz
Vice President and Controller
ConocoPhillips